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Costa Rica

Wine

Wine, Beer and Liquor Sector Report

2008

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Report Highlights:
Significant growth and expansion in Costa Rica's tourism, bar and restaurant, and supermarket sectors (combined growth may be over 150%) over the last four years has fueled a culture that appreciates and buys wine, liquor and beer. From 2003 to 2007 imported wines grew 108%, liquor 63%, and beer 188% for a total sect or growth of 120%. Chilean wines, in first place, consistently out-performed all international wines while U.S. wines remained in sixth place. Sales of liquor (whiskey, bourbon, tequila and vodka) spiked at high-end supermarkets and bars – and experienced growth averages of over 35%.

Costa Rica is a dynamic and highly competitive market.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
San Jose [CS1]
[CS]

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Report Note: Costa Ricans both self-identify, and are affectionately known around the world as 'Ticos.' That abbreviated, and very acceptable term or identifier will be used throughout this report.

Section I. Executive Summary and Market Trends

Imagine a warm, sunny place the size of West Virginia with/where:

- Dozens of four and five star restaurants, hotels and bars, on par with the best in New York City, Beverly Hills, Miami, or San Francisco carry anywhere from 40 to 400 different international wines.
- A dozen towns are similar to Carmel, CA, or Boca Raton, FL and are complete with luxurious resorts, restaurants, bars, and fabulous villas offering breath-taking beach and mountain vistas, lavish marinas and award-winning golf courses.
- The tourism and hospitality markets are so focused on combining good food with great wine that an Argentinean sommelier will soon open an office (late 2008) to attend to the growing training needs of chefs, waiters, bartenders, restaurant owners and the discerning, wine-consuming public.
- The owner of one of the country's oldest and largest importer/distributors is acquiring a year-long Napa Valley 'boutique wine certification.'
- A large and growing number of upper class residents are purchasing large-capacity bodgeas/wine coolers or cavas -- for their homes and their reserve and premium wines.

Imagine Central America's crown jewel -- *Costa Rica*.

Despite a record 119% growth in the importation of wine, beer and liquor between 2003-2007, totaling some $149 million, Costa Rican importers interviewed for this report said that in their opinion U.S. alcoholic beverage exporters are indifferent to this small but dynamic market.

That said, in 2006, three Lockeford, California wineries tried to introduce their boutique wines to high-end hotels, restaurants and small boutique stores and markets in suburban, Cartago, Costa Rica. A Lodi-Woodbridge Winegrowers Association executive is quoted as saying, "it's important for us to get to know the distributors and retailers personally. It's all about having quality relationships with those who can champion your wine." *If only* more U.S. exporters actually sought 'quality relationships' with Costa Rican importers, distributors and retailers U.S. wines probably would not be, for the fifth consecutive year -- in sixth place in this small, but exciting and growing market.

And while the Argentinean economic crisis of 2001-2002 drove Argentinean wineries to eventually become successful in Costa Rica – it is somewhat doubtful that the U.S. economic crisis of 2008 and 2009 will propel U.S. wineries to achieve the same market success in Costa Rica.

At one level, it wouldn't be difficult to understand and then succeed in this market. Costa Rica's history as a major market for wine, liquor and beer is not a long or complicated one.

Legend has it that the real boom may have started as recently as 2003 with the opening of the Four Seasons Hotel in Guanacaste, Costa Rica (Northwestern Costa Rica). Apparently a North American tourist landed at the Four Seasons Resort at the Peninsula de Papagayo and asked for *Grey Goose* (vodka). The Four Seasons didn't carry it, so hotel staff quickly flew to Panama, purchased the spirit, then immediately flew it back to the Guanacaste hotel and to the tourist.

During this same 2003-2004 period there were approximately 15 liquor and wine importers in Costa Rica. Today, estimates are there are over 200. Some large importers service as many as 9,000 clients most of which are supermarkets, convenience stores, neighborhood liquor store, bars, restaurants, boutique and large hotels, and hotel/hospitals just to name a few. We estimate that there are at least 15,000 points-of-sale for beer, wine and liquor throughout Costa Rica.

Wine, beer and liquor imports between 2003 and 2007 grew by some 119% due to a number of inter-related factors:

- a growing and educated middle class and upper middle class who are economically buoyed by good-paying jobs at the hundreds of successful multi-national companies who have been in the market for dozens of years (to include Intel who arrived in 1998 which now employees some 2,900 employees),

- the growth of supermarket chains where alcohol products are readily available and actively promoted, and

- an influx of tourists and retirees seeking reasonable real estate investments in paradise and all the associated infrastructure that a vibrant tourism market needs – especially the creation of nearly 11,000 restaurants and bars.

Some general comments and observations about the Costa Rican wine market and the overall environment where wine imports grew some 108% from 2003-2007 include:

- While U.S. and California wines 20 years ago were characterized by those gallon-sized, jug-handled containers with screw tops, more recent and successful California wines are Opus One, America's first ultra-premium Franco-American wine that averages about $100+ a bottle in Costa Rica.

- The hotel and restaurant industry are intent on making 'training' a constant feature for their staffs thus necessitating the need for, and arrival of a sommelier from Argentina.

- Argentinean wines, when they arrived five years ago were considered horrible. Today, they are some of the top sellers.

- The market for wine was good from 2004-2007; now it is considered not as good.

- Our research discovered, conservatively, over 200 articles written about this sector/industry in the *El Financiero* over the last three to four years.

- Costa Rica is Central America's number one consumer of wine followed by Guatemala and then El Salvador.

- Purchases of beer and wine in supermarkets have experienced a 35% growth over the last few years.

- Chile's Concho y Toro wineries are considered a regional leader and have 35% of the market in Costa Rica.

- Tetrabrick containers are highly successful and highly acceptable for daily consumption and, or use in cooking, for example.

- One of the country's largest importers will 're-launch' a major, premium California and Washington wine – this time, without the services of a broker.
- Growth, especially in the consumption of wine, according to one seasoned wine executive who is also an executive in the tourist industry -- has three compelling issues:
    - The industry still suffers from a lack of good marketing.

  - There are key infrastructure limitations for all alcoholic beverages outside of San Jose.

  - Consumers of high quality wines are evenly distributed between Ticos and tourists

- While there is a boom in wine directed principally by wines from Chile and Argentina, all other wines are seen, as somewhat 'stuck.'

Section II. Country and Consumer Overview

With a native population of 4.5 million and a yearly influx of nearly 2 million tourists, which create nearly $1.7 million in tourism-based revenues (8% of GDP) -- Costa Rica is an economy that expands and contracts due to seasonal variations in its demographics.

Imports in 2007 reached $14 billion of which $5.5 billion were from the U.S. This Central American country exports $9 billion (2007) to some 153 countries principally in fruit (pineapple and bananas), coffee, microcomputer parts and digital circuits (Intel's large manufacturing facility opened in 1998). While the U.S. continues to be the country's largest trading partner, with exports totaling $3.3 billion (2007), other key exporters include Mexico, Japan, Venezuela, China and Brazil with each country averaging some $6 billion in exports.

Of special note is the growing influence both politically and industrially that China has had in Costa Rica since 2004. That influence may have an interesting effect on Costa Rica's tourism and alcoholic beverage industry as upper class and upper-middle class Chinese vacation and buy real estate in this vacation paradise. In preparation both for this, and previous reports, the growing influence of the Chinese as a trading partner, tourist and consumer, was frequently mentioned by those interviewed.

This 'Switzerland of Central America' is known as having one of Latin America's highest rates of social development, education, life expectancy as well as one of the region's lowest infant mortality rates.

In 2007, Costa Rica received over $1.9 billion in foreign direct investments (FDI), one of Latin America's top recipients of FDI, and a 30% increase from 2006. The industrial and real estate sectors received more than two-thirds of FDI monies; FDI for tourism accounted for 17% of that investment.

A stable social-economic environment and the popularity and success of 'sustainable eco-tourism' has fostered steady and dynamic growth in the tourism sector and the explosive growth in related industries such as the construction of hotel and restaurant-related services and imports. Small towns in Northwest Costa Rica (Guanacaste) registered some 3,000 construction and tourism-related permits in 2006 and 2007, for example. One food service company servicing over 2,500 restaurant clients has had growth ranges of 100% to 800% in some of its food and service sectors (sushi, for example).

While a sound, pro-growth, pro-business government, and two million tourists work to favor an economy that permits people the financial luxury to purchase liquor – the other important ingredient here are the Ticos themselves. Known as intelligent, cosmopolitan, demanding, inquisitive, well-traveled, and highly educated – they may also be some of Central America's best 'consumers.'

Section III. Domestic Production and Exports

Worldwide, governments frequently own breweries and/or distilleries for reasons of enterprise (for much-needed revenue) and regulation. These national monopolies often demonstrate elaborate horizontal and vertical integration and distribution systems given the totally home-grown nature of their enterprise. Costa Rica is no exception.

The *Fábrica Nacional de Licores* (National Liquor Factory) known by Ticos as FANAL was created by Executive Order in 1853. Beer production was created by an executive order in 1868. FANAL produces 17 different liquors in its modern plant known to be one of the best in Latin America. Its line of products includes: three (3) guaros, with a 29-45% alcohol content, five (5) rums, gin, vodka, and seven (7) cream drinks in the tropical flavors of anis, white mint, green mint, triple sec, coffee, Perfecto Amor and cherry.

A recent survey cited by *El Financiero* reported that FANAL's guaro production (2008) is estimated to be at 5.2 million liters reflecting consumption by a large part of the population. However, people recently polled by a University of Costa Rica study reported that their drinking habits did not include guaro as one of their favorite drinks probably because so many other options exist.

FANAL's products are delivered by Costa Rica's national beer enterprise (known as FIFCO) which will be discussed later in this section.

Costa Rica's beer consumption is estimated at approximately 35 liters/year -- an intermediate level within Latin America. Consumption had been at 30-32 liters a year for the last four years. Venezuelans, in comparison, consume about 80 liters a year, and Mexicans around 50 liters a year, according to FIFCO sources interviewed for this report.

As interesting as it is to analyze beer consumption is the analysis of beer production. **Table 1** indicates that, as a region, Central America's role as a producer of beer since 2002, has consistently been greater than the world average with notable production increases in the period 2005 and 2006.

Table 1: World Beer Production. Regional Summaries and Comparisons

	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Region	**1,000 hl**	**1,000 hl**	**1,000 hl**	**1,000 hl**	**1,000 hl**	**+/- %**	**+/- %**	**+/- %**	**+/- %**	**+/- %**
European Union	311.021	313.176	377.569	381.454	386.169	0,4%	0,7%	20,6%	1,0%	1,2%
Rest of Europe	192.379	202.416	151.341	165.142	182.550	5,9%	5,2%	-25,2%	9,1%	10,5%
Europe Total	503.400	515.592	528.910	546.596	568.719	2,4%	2,4%	2,6%	3,3%	4,0%
North America	255.931	254.743	255.532	254.147	255.458	-0,4%	-0,5%	0,3%	-0,5%	0,5%
Central America	**7.864**	**80.576**	**83.078**	**87.828**	**94.343**	**1,6%**	**3,5%**	**3,1%**	**5,7%**	**7,4%**
South America	145.186	143.422	153.348	163.017	172.279	-1,9%	-1,2%	6,9%	6,3%	5,7%
America Total	*478.981*	*478.741*	*491.958*	*504.992*	*522.080*	*-0,5%*	*-0,1%*	*2,8%*	*2,6%*	*3,4%*
Asia	376.116	397.442	439.735	456.531	508.037	1,7%	5,7%	10,6%	3,8%	11,3%
Africa	63.164	65.977	70.692	73.189	78.807	5,0%	4,5%	7,1%	3,5%	7,7%
Australia/ Oceania	21.564	21.379	20.948	21.088	21.295	0,8%	-0,9%	-2,0%	0,7%	1,0%
WORLD TOTAL	**1.443.225**	**1.479.131**	**1.552.243**	**1.602.396**	**1.698.938**	**1,3%**	**2,5%**	**4,9%**	**3,2%**	**6,0%**

Source: www.beerinstitute.org

In the 1920s the national brewery of Costa Rica was absorbed into Florida Ice and Farm (FIFCO), a highly successful, constantly growing and expanding world class enterprise with constant attention to acquiring new products and creating new market opportunities while maintaining a decidedly *take-no-prisoners* approach to both. Despite Ticos' obsession with their national beer, imported beer grew by 188% between 2003 and 2007 fueled mainly by beer from Mexico and lower import taxes for beverages with a lower alcohol content.

Mexican beers, distributed by FIFCO, are promoted and handled by a Mexican marketer who is based in Central America and who frequently meets with importers and distributors. This kind of in-country marketer is seen as ideal by importers who indicated that it should serve as an example to other importers.

Product and beer branding experts, S. Anholt and M. Lindstrom would observe that Costa Rica has all the ingredients for 'free country-of-origin-branding' deemed helpful when promoting a popular, national beer. 'Country-of-origin,' they claim is nine-tenths of the 'magic' that successful beer branding needs. If you've been to a country, they note, and had a good experience, than when you see a brand, like a beer, from that country, you are often buying into an emotion, not the product. If that branding concept is true -- Costa Rica's beer, rum, flavored liquors and creams will all benefit from leveraged 'free branding' that comes from a very popular and positive country -- and vacation destination.

List A: Highlights of the FIFCO Enterprise, its Beers and RTDs

- Since 1888, the Cerveceria, and later FIFCO, have acquired numerous Central American breweries (Panama, Nicaragua and Guatemala).
- FIFCO produces over 39 million gallons of beer a year.
- FIFCO was one of the first breweries in Latin America authorized to produce Heineken beer; they were also one of the first breweries to produce a light beer, an ice brew and a beer without alcohol.
- 70% of FIFCO's beer is sold in supermarkets.
- Since 2003 FIFCO has offered the public, servers, and restaurant owners three hour beer catas (tastings) entitled "Beer and Fine Dining." These tastings promote the history of beer and how to marry this 'noble' drink with good food.
- In 2004, FIFCO's flagship product, *Imperia*l was launched in the U.S. market not due to the ex-pat Tico community in the U.S. but rather due to tourists who requested *Imperial* once they returned home from their Costa Rican vacation. Imperial now has 40 distributors in eight states: Arizona, California, Delaware, Florida, Georgia, New Jersey, New York and Texas, as well as in the Gran Cayman, Australia and Guatemala.
- Seventy percent of FIFCO's beers are sold in bottles; most sold in bars are in returnable bottles.
- Promotion and distribution of any new beer must contend with the very sophisticated and well-organized national beer monopoly.
- A FIFCO executive sees no market for microbrewery beers.
- The distribution of imported beer (i.e. from Mexico) is heavily controlled by the state beer manufacturer.
- FIFCOs brands include:

Imperial	Cerveza Gallo
Imperial Light	Cerveza Toña (Nicaragua)
Pilsen	Heineken
Pilsen 6.0	Rock Ice
Bavaria Gold	Rock Ice w/ lime
Bavaria Light	Kaiser

- Since 2005 FIFCO launched “Puntos Cerverceros” (Points for Beer Servers) aimed at encouraging over 700 bars, night clubs and restaurant owners, managers and servers to sell FIFCO’s products. The program awards the establishment and its servers, individually and collectively, with a large array of products from t-shirts, plasma TVs to insurance programs. Lavish parties are also hosted.
- Mexico’s Corona, growing in popularity, is distributed by FIFCO.
- FIFCO produces and distributes three ready-to-drink (RTD) beverages, known as BAS – Bebidas Alcoholicas Saborizadas. They are: Smirnoff, Bamboo, and Cuba Libre (produced in Mexico by Florida Ice) – a canned version of rum and coke.
- FIFCO is a leader in RTDs with 96% of the market. Great growth in this sector has focused on upper middle-class young adults between 18 and 24 years of age.
- The Pilsen Red brand is considered to be similar to Boston’s Samuel Adams.

Table 2 demonstrates the variety of containers, and costs of some of FIFCO’s beers as sold by a high-end supermarket.

Table 2:
Costa Rican National Beers Sold by a High End Supermarket

Name of Beer	Sizes in Bottles (b) or Cans (c)	Type	Cost/Unit In colones 8/08<> per can
Bavaria	350ml b	Dark	505
	350ml b	Gold	505
	350ml c	Dark	535
	350ml c	Gold	535
	350ml c	Light	535
	12 u & glass (gift)	Gold	6,075
Heineken	350ml b		565
	350ml c		580
Imperial	350ml b		495
	350ml c		475
	473ml c		605
	12 u c		6,075
	6 u c		2,600
	box 4.21		5,400
	12 u, 350ml & glass		5,400
Pilsen	350ml b		395
	350ml c		475
	473ml c		605
	6 pack/350ml		2,600
	T-pack/box/12 u		5,400
	12 pack/350ml/w/ glass gift (box 4.21)		5,400
Kaiser	350ml c		555
Rock Ice	350ml b		395
	350ml		395

Source: COBOLCOR, data from Auto Mercado’s website (9/08). Note: Unlike the U.S. where the concept of a ‘6-pack’ purchase is common, Ticos (as well as Latin Americans in general) normally purchase individual cans of beer.

There are numerous successful local producers of cream and tropical fruit liqueurs throughout Costa Rica. Thanks to Ticos who travel internationally and give these exotic liqueurs as gifts -- as well as those purchases made by a percentage of the nearly two million visitors who visit the country – these liqueur producers will continue to have a bright future. Common tropical varieties include: coffee, coconut, triple sec, amaretto, peanut, macadamia, cacao, peach, mango, anis, melon, orange, mint and banana, to name a few.

Section IV. Taste and Tastings

Tastings, called 'catas' in Spanish (from the verb *catar* – to taste or sample [as in food and drinks]) are frequent, popular, successful promotional events that are well attended, often elegant and well-organized. Most officials interviewed for this report, described them, subtly -- as money-makers.

The first catas were probably introduced by some of the oldest importers back in the mid and late '90s. Since then they have grown in importance and frequency. Catas are big business and everyone does them. Their success, in a country like Costa Rica is probably due, in large part, to the Tico's very deep, and sincere propensity to want to learn and educate themselves about everything – to include the intricacies of wine or beer. Costa Rica is known, throughout the Western Hemisphere as having, per capita, one of the highest rates of literacy and education.

Given the sophistication of the Costa Rican wine, spirit and beer tasting audience -- U.S. manufacturers and exporters should seriously consider integrating catas into their promotional campaigns. All formats horizontal, vertical, priceless, price-point, and blind tasting should be considered for this eager audience.

List B: Characteristics and Opportunities of Costa Rican Tastings -- Called *Catas*

- A gourmet distributor/importer consistently holds, every three weeks, a membership-only cata. Members are encouraged to invite their contacts, neighbors, and friends.
- Catas are seen as an excellent opportunity for alcoholic beverage importers and distributors to promote their company and showcase their personalized service – an important feature of the Tico culture.
- Tastings are used by businesses as a company function.
- An average number of tasters is 25-30, and rarely up to 75.
- Importers/distributors generally hold catas from 7:30 p.m. to 11 p.m.
- *The Fresh Market*, convenience store chain, holds highly successful, four-hour catas on Fridays and Saturdays.
- Finger food, meats, elegant hors d'oeuvres, fine crystal glassware, professional waiters and beverage presenters are all, important parts of the wine cata.
- Catas can cost $500 to host.
- Cata proceeds can approximate $1,800 and often include discounted boxes of wine.
- One up-scale, boutique convenience store experiences a 240% increase in wine sales following a cata.
- Catas (wine or beer) can cost $25-$40/pp; catas with dinner can cost $100.
- Embassies (Argentina, New Zealand, etc.) hold catas in support of wine producers from those countries
- A recent (2008) cata sponsored by the magazine and website apetitoenlinea.com (co-sponsor of the well known wine show *Expovino*) featured wines from France and Chile, as well as tastings of whisky from Scotland.

After interviewing numerous alcohol beverage executives, and reviewing the literature a few general observations and comments about the taste buds of Ticos and tourists are offered.

List C: Some Taste Preferences of Ticos and Tourists - Costa Rica

- U.S. tourists at high-end hotels are frequently interested in trying non-U.S. wines, and ask for Chilean or other international wines.
- Ticos prefer wines that aren't too dry, that are 'balanced' and that have a fruity taste.
- One wine entrepreneur has developed his own fruity, 'tropicalized' wine with an Argentine wine house adding more sugar but a shorter fermentation time.
- According to restaurant and bar owners and managers – 'the Tico that is known to travel internationally' – frequently returns to Costa Rica looking for a wine or drink they have had outside Costa Rica.
- Ticos first 'love' is beer, however wine is rapidly attracting the attention of all Ticos who now realize that wine is not a drink just for special occasions.

Section V. Consumption, Imports and Sales: Wine, Beer, Liquor

Interviews with 15 beverage experts and importers, weeks of eye-witness market analysis, as well as information obtained from a June 2008 *El Financiero* article* revealed interesting consumer and sales facts and myths about wine, beer and liquor consumption.

Note: El Financiero* (June 2008) featured a 700-person survey (conducted by a local university) on alcoholic consumption. Please consult Section VIII for additional insights.

Comparison of All Alcoholic Beverages

- Beer is preferred by 56%, followed by whiskey at 18% and wine at 11%, in that order.
- From 2006 to 2007 wine imports grew 30%; in this same period whisky imports were at 11%.
- Vodka and guaro were both found to be below the level of preference.
- Over 50% of people polled who drink alcoholic beverages also like to drink and eat at the same time and stated their interest in drinking wine.
- Ticos consumed 2 million liters of whiskey, 4.8 million liters of wine, and increased their interest in beverages that can be purchased and taken home to enjoy with family and friends.
- Wine and liquor distributors and importers say that in the 1990s wine was the beverage of those 35 to 50 year olds. It now garners the intrigue of those 25 to 27 -- however the strongest consumers are those 40 to 50 years of age, according to wine experts interviewed for this report.
- Middle class and lower-class Ticos would rather drink beer in a social setting like a bar rather than – drinking at home (perceived).

Wine

- Per capita consumption of wine doubled in the last ten years (1998-2008) due to an increase in popularity of the beverage, food consumption, the increase in tourism, and the health benefits associated with wine.
- A typical breakdown of the kinds and quantities of wines carried by a major distributor, for example, might look like this: Red: 136, White: 43; Rosé: 1, Ports/Sherry: 9, Champagne: 30.
- Kosher Wines
    - A small, exclusive importer of only kosher wines from eight countries has grown its business by selling kosher wines to about 600 of Costa Rica's Jewish families over the last few years. Although purchased quantities are small, prices range from $11.00 to $85.00. Some families often ask for specific kosher wines and about 50 of the importer's clients also have cavas in their homes.

- One of the nation's most exclusive super-markets says it has approximately 1,800 clients who purchase kosher wines and another 973 clients who purchase concord wines. Their kosher wine selection includes Manichevitz wines and Recanti wines. Sales for the first eight months of 2008 was $USD12,000.
- Other niche wines such as boutique wines, wines grown under a rubric of sustainable development and organic wines all have a small, but exciting and potential market.
- One major importer is searching for a distributor of non-alcoholic wines.

Beer

- Beer's market share grew from 35% in the 1980s to 60%.
- Aggressive marketing campaigns, cheaper price, and the fact that beer can be consumed with food over a longer period of time, as well as its seasonal attractiveness (in the hot/dry seasons of November to April) drive its popularity.

Alcoholic Beverages Imports

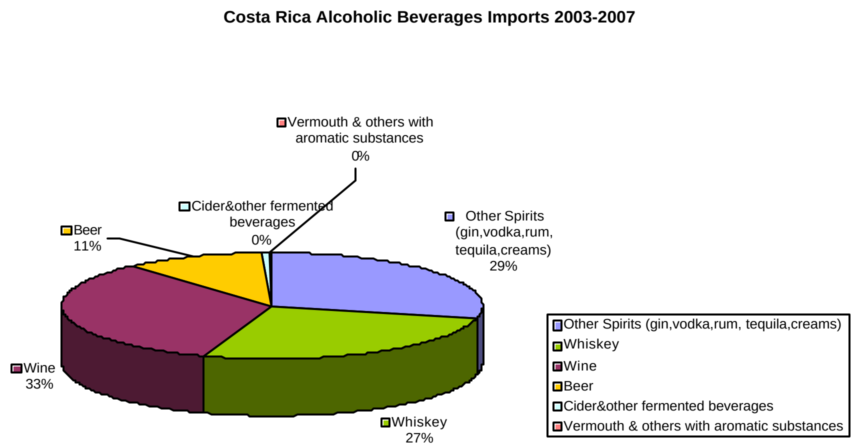
Table 3 – Imports 2003-2007 by category

Costa Rica - Alcoholic beverages Imports in U.S. Dollars - 2003-2007

	2003	2004	2005	2006	2007
Spirits (whiskey,gin,vodka,tequila,rum,creams)	12,734,097	14,316,751	17,069,676	17,713,381	20,787,522
Wine	6,821,123	8,007,542	10,100,902	10,569,798	14,170,710
Beer	1,850,410	1,578,602	2,430,606	4,768,149	5,335,401
Cider&other fermented beverages	73,742	100,985	170,992	106,727	147,334
Vermouth & others with aromatic substances	87,388	109,817	105,585	92,218	164,492
Total	**21,566,760**	**24,113,697**	**29,877,761**	**33,250,273**	**40,605,459**

Source COBOLCOR based on data from INEC

Chart 3A – Imports 2003-2007 by category



Source: Cobolcor with Data from Inec

Table 4 – Imports 2003-2007 by Country (Main exporters)

Principal Wine Exporters to Costa Rica - 2003-2007 (in U.S. dollars)

	2003	2004	2005	2006	2007	Total per Country
1 **Chile**	$2,831,780	$3,659,727	$4,724,765	$5,042,112	$7,092,349	$23,350,733
2 Spain	877,188	1,124,663	1,181,459	1,080,628	1,521,552	5,785,490
3 Italy	871,546	985,137	1,191,844	1,187,010	1,485,529	5,721,066
4 France	756,265	720,261	871,160	657,296	948,976	3,953,958
5 Argentina	261,153	446,861	734,943	933,992	1,073,435	3,450,384
6 **United States**	356,230	406,132	553,324	767,041	796,292	2,879,019
7 Germany	464,303	290,358	316,589	264,119	376,524	1,711,893

Source: COBOLCOR with data from

Principal Spirit* Exporters to Costa Rica - 2003-2007 (in U.S. dollars)

	2003	2004	2005	2006	2007	Total per Country
1 **U.K**	$ 5,826,129.00	$ 7,145,407.00	$ 8,226,838.00	$ 6,338,684.00	$ 8,536,014.00	$ 36,073,072.00
2 Mexico	1,815,732	2,275,909	2,006,332	2,472,359	3,156,081	$ 11,726,413.00
3 Panama	1,414,913	775,151	1,429,802	1,595,831	1,541,423	$ 6,757,120.00
4 Ireland	492,393	616,398	706,672	943,786	1,193,802	$ 3,953,051.00
5 Netherlands	670,007	160,041	491,701	854,886	614,639	$ 2,791,274.00
6 **United States**	270,626	400,719	561,412	785,271	622,201	$ 2,640,229.00
7 France	543,964	430,154	585,174	384,442	394,782	$ 2,338,516.00

* Includes Whiskey, Rum, Vodka, Tequila, Gin and Creams
Source: COBOLCOR with data from INEC

Principal Beer Exporters to Costa Rica - 2003-2007 (in U.S. dollars)

	2003	2004	2005	2006	2007	Total per Country
1 **Mexico**	$ 1,111,848	$ 1,295,845	$ 2,083,929	$ 3,939,188	$ 4,448,738	$ 12,879,548
2 **United States**	356411	89918	80027	82103	84789	$ 693,248
3 Germany	138918	90429	75780	117844	111989	$ 534,960
4 Netherlands	0	0		140118	109311	$ 249,429
5 Belgium	0	0	0	0	119343	$ 119,343

Source: COBOLCOR with data from INEC

Forecasting the growth and decline in wine consumption assists exporters and marketers in identifying potential growth markets as well as markets to avoid.

In **Table 5** COBOLCOR assembled a list of countries, with data from the Wine Institute, with a wide range of wine consumption statistics from 2001 to 2005. The countries identified have three compelling characteristics:

- They are neighboring, or regional countries to Costa Rica with good consumption rates and should be considered, for easy market expansion once an exporter has been successful in Costa Rica.
- They are countries that already export wine to Costa Rica and in the case of Argentina, France, Germany, Italy, Spain and South Africa are markets that 'must'

export their wine due to either their own internal economic crisis and/or a decline in what was an historically strong 'wine-consuming economy.'

- They are neighboring or regional countries, mainly in Central America and/or the Caribbean (Cuba, El Salvador, Honduras, Nicaragua, Panamá, Puerto Rico and Trinidad Tobago) where wine-consumption has grown significantly, in large part, due to being vacation destinations.

Table: 5
Per Capita Wine Consumption in Select Countries from 2001-2005
(liters per capita)

Selected Countries	Percentage Change I-/+
Argentina	(4.5)
Australia	25.75
Chile	10
Colombia	36.60
Costa Rica	**40.97**
	54.08
Cuba	38.47
El Salvador	0.24
France	.78
Germany	(9.9)
Guatemala	203.55
Honduras	(7.13)
Italy	12.21
New Zealand	24.96
Nicaragua	27.66
Panama	211.27
Puerto Rico	(1.67)
South Africa	(6.85)
Spain	86.59
Trinidad- Tobago	10.01
U.S.	

Sources: Countries selected by COBOLCOR. Data obtained from the Wineinstitute.org

Section VI. Channels of Distribution and over 15,000 Points-of-Sale: Restaurants, Bars, Supermarkets, the Tourism Industry -- and more.

Alcoholic beverages are imported and distributed in Costa Rica only through exclusive distributorship arrangements. Some 200-250 importers and distributors work hard to keep some 15,000 customers and points-of-sale, a demanding native consuming population and some two million tourists supplied with name brand, familiar, and/or novelty alcoholic beverages.

The distribution territory, while small geographically is challenged by poor infrastructure made especially difficult during Costa Rica's four month rainy season. Getting expensive wines and spirits safely to remote resort locations is difficult. One niche wine importer noted that despite a large number of aggressive and successful importers, some hotels and remote resorts are often forced to use their own energy and resources to get their wines. Case-in-point -- there are numerous wines from New Zealand, Australia and South Africa found in luxurious remote villas that cannot be found in San Jose.

The overwhelming thrust for alcoholic beverages in Costa Rica comes from the restaurant and bar sectors. Ticos and tourists alike patronize both sectors.

Conservatively, there are over 10,000 small, medium, and large-sized restaurants and bars in Costa Rica.

In order to give U.S. exporters and marketers a general 'feel' of what constitutes a successful and dynamic bar and restaurant, two profiles highlighting trends and characteristics are provided. These two profiles contain characteristics of the 'norm' for most bars and restaurants in Costa Rica will be.

List D
Actual Profile, Trends and Characteristics
a New, Successful, *Wine-Focused, Boutique Restaurant* Offering <>400 Wines
Escazú (San Jose) Costa Rica – 2007 & 2008

Time in operation and under analysis ……….	1 months (October 2007-September 2008)
Location …………………………………………	Escazu, Costa Rica
Number of wines offered ………………………	**<> 400**
Number of wine distributors/importers used ……	14
Number of seats in restaurant ……………………..	**60**
Average wine mark-up in similar restaurants in Costa Rica (unofficial)*…………..	**200-300%**
Wine mark-up at this restaurant ……………. ….	**32%**
Percentage of clientele who come to this restaurant specifically to drink wine ………………	**98%**
Percentage of red wine sold………………………….	78%
Income from all vino Red sold in 11 months ………	c/62,000,000 or <>$106,000
Percentage of vino White sold ………………………	3%
Kosher wine offered ……………………………………	No
Typical client ……………………………………… …	Businessman
Nationalities of clients………………………………..	50% Ticos, 50% North Americans
Most popular U.S. wines sold/served………………	**Opus One and Chamus**
Total number of U.S. wines offered 9/2008(avg.)…	**Nine, red wines (out of 400)**
Rank order: most popular wines sold ……. …….. ….	Argentina, Chile, Italy, Spain, USA, France
Rank order: most money generated for wines sold………………………………………………	Argentina, Chile, Italy, Spain, USA, France
Percentage of clients who dine at this restaurant two (2) to five (5) times a week ……….	**70%**
Clients most popular time to dine ………………… ..	Evening
Average time at meal ……………………..	Three (3) to four (4) hours
Advertisements purchased to promote restaurant……	One
Most popular meals served ……………………….	Sea bass, hour d'oeuvre, Tuna, Salmon
Percentage of all sales that is liquor/spirits ……	.30 – three tenth's of one percent
Most popular spirit sold….…………………………	Vodka

Origin, number and kinds of wines sold (partial list of <> 400 wines offered)

Argentina:	Red	36	White	1		
Australia:	Red	11	White	1		
Chile:	Red	57	White	5	Rosado	1
USA:	Red	9				
France:	Red	2				
Spain:	Red	66	White	7		
Italy:	Red	66	White	6	Rosado	2

Prices of most expensive wines offered

U.S./Opus c/209,300 = <>$359??
Spain c/196,000
Argentina c/69,700 = <>$192????
Chile …… c/ 57,100

Source: COBOLCOR September 2008.

List E
Actual Profile, Trends and Characteristics of a Popular, Successful, Trendy Bar
Itzcazu, (Escazú) Costa Rica - 2007 & 2008

Size & years in operation	<>6,000 sq. feet; opened four years; expanded two years ago
Second Más Tkila bar	Heredia
Future Más Tkila planned for	Curridabat and Guanacaste
Growth in sales	Duplicated sales in four years (<>35%)
Nationalities of clients………………	<70% Ticos (also Ticos from Guanacasta and Cartago), <30% North Americans and Central Americans, however, Asian (Chinese) clients also frequent this bar.
Range of age of clients	23 - 45
Average amount spent by clients	<> $20.00 = c/10,000 per person
Average spent by party of four	<> $ _____ = c/500,000?
Average sales on a 'good night' (norm)	$6,000 (especially on weekends); <>$2million a year
Capacity	200; 50 tables
Staff	7 waiters and 4 bartenders
Happy Hour	*Everyday* from 4:30 to 7:30
Most popular liquor served	#1Tequila: El Patron Silver (popular with North Americans), Don Julio, Jose Cuervo ? And Don Jose (popular with Central Americans) #2 Whisky #3 Rum and Vodka
Most popular mixed drinks	Margarita (hands-down) and frozen margarita
Latest fad liquors	Jagermeister and Jagermesiter Boom (Germany) Sacapa, specifically the 12 and 23 year old reserves
Latest fad drinks	Jagermeister plus Red Bull Vodka and Red Bull
Requests for drinks not available	Approximately five (5) times a year clients request a liquor they do not carry
Special drink requests come from	80% Europeans and North Americans; 20% Ticos
Wines served	Little (provided by one distributor)
Most common payment option	Credit card: 90%
Number of liquor distributors used	Four (4) to include: Holtermann, Centenario Internacional, Grupo Pampa)
Percentage of liquor from these distributors	60%
Mas Tkila's own importer/distributor	40%
Number of beer distributors	One (1): La Cervercia Costa Rica
Most popular beer (rank order)	Tecate, Corona, Heinenken and Bavaria: all delivered by FIFCO.
Entertainment includes	-Live music of the classics of the70s, 80s and 90s. -Salsa and merengue. -Catas -- promoted by distributors who send personnel for duration of the tasting. -Monthly programs of activities planned.
Training	Courses for bartenders frequently provided. Significant attention is placed on training and awards for achieving volume milestones.
Locker Concept.	Client buys a bottle of liquor at the bar, uses it during the evening, and leaves the bottle at the bar. The amount you use will be marked and reserved for your next visit. Started two years ago. Is an extremely successful concept.

Source: COBOLCOR September, 2008.

Another location for alcoholic beverages are the nearly 50 casinos, scattered throughout the country. Casinos entertain a wide mix of both young and older clients, both native Costa Ricans as well as significant number of foreigners. The older clients may flock to the slot machines or black-jack tables while sipping their scotch or beer, but the 20 and 30 year olds can be found enjoying the live bands while drinking, eating and dancing. These casinos can provide an interesting place for focus groups and catas.

Table 6:
No. and Location of Casinos Costa Rica 2008

Casino locations	No. of Casinos
San José	22
Guanacaste	10
Puntarenas	9
Alajuela	4
Heredia	2
Limón	1
Total casinos nationwide	48

Source: Colegio de Periodistas de Costa Rica, September 19, 2008

Numerous statistics tell convincing stories about the popularity and dynamism of Costa Rica as a location for tourism and golf, a natural ally for great wine. **Table 7** identifies a number of statistics that profile Northwestern Costa Rica and this most dynamic market for expensive wine, spirits and beer.

Table 7:
Profile of Tourists Entering, Costa Rica's Second Busiest, Liberia Airport, Province of Guanacaste, Costa Rica
2007 and 2008

156,028	Total tourist arrivals January -March 2008
365,00	Total tourist arrivals: 2007
13%-16%	Increase in same period from 2007
51%	Tourists between 30 - 49 years of age
$71,000 to $300,000	Range of annual income of tourists
74%	U.S. tourists
26%	Canadian tourists
34,000**	Tourists who play golf exclusively
$87.6 million**	Golf tourism generates annually in food, lodging, and recreation expenses
$2,251	Average amount of money spent

Convenience Stores

A small percentage of Mom and Pop corner grocery stores in Costa Rica, called "pulperias" or "chinos", are now calling themselves "liquor stores. They carry both groceries and a small number (<>100 bottles) of liquor and beer usually found safely near the cash register.

The five Fresh Markets, the up-scale boutique convenience store also owned by AM/PM are located in upper-scale neighborhoods.

AM/PM plans to open seven more of its urban stores by 2009 and expand its prepared food kitchen operations due to the growth in this fast-food sector. AM/PM is intent on selling products that are only quick, tasty, convenient and freshly made in AM/PMs kitchens and/or on location in their small self-serve counters which feature a variety of snacks and take-out foods. Every month AM/PM sells some 7,000 pizza baguettes. And while frozen foods are not desirable in these enterprises, *fiesta products* (avocados, guacamole, chili, tostados, beer, wine) are.

List F:
Profile of Wine, Beer and Spirit Sales at a
Boutique Convenience Stores Fresh Market and AM/PM – 2008

- Carry 100 wines from 35 different wine houses.
- Six wine and spirit distributors are used to stock their stores.
- Most popular sellers are wines from Chile, Argentina, Spain, France, Italy and then the U.S.
- Cabernet Sauvignons and Merlot are the two most popular wines.
- RTDs like Smiroff Ice and Cuba Libre are experiencing a growth of some 20%.
- In-store, two day wine tastings called "Ferias de Vino" are highly successful and attract 100 visitors.
- Wine sales during *Ferias de Vino* (catas) increase some 240% and include sales of boxes of *wine.*
- *Ferias de Vino* usually occur on a weekend from four p.m. to eight p.m.
- Wine served at a cata is served by professional waiters, using wine glasses. Cheese and cold cuts or other food is served and the distributor or other representatives are present to educate and explain the wine.
- Fresh Markets sell wines between $12.00 to $20.00.
- Wine sales have, overall, increased 28% over the last years.
- Costa Rican, Mexican, and Belgian beers are sold most frequently. Miller beer, successful five years ago, disappeared– but is slowing returning in some stores. Imported beers sell very well in Fresh Market and have had a growth of 20%.
- Wines in AM/PM sell between $8 and $12. In both locations an attractive paper wine sleeve sells well, especially at Christmas, $2.00.
- Cuba Libres, and similar drinks, in a can, have experienced 20% growth over the last year.
- Younger Fresh Market shoppers tend to purchase Smirnoff Naval, whiskey, rum and Absolut vodka. And while tequila is not popular with the young, affluent Fresh Market crowd – Bailey's is.
- "Pachitas", bottles of 250ml, are extremely popular and sell well, especially with young drinkers.

Source: Interview with executive team and managers of AM/PM and Fresh Markets.

Supermarkets

The role of Costa Rica's highly competitive supermarkets – numbering over 300 -- cannot be underestimated when analyzing the growth of this sector.

Case in point is one of the nation's premier high-end supermarket chain with 12 stores strategically located in upper-class suburban neighborhoods throughout the country. The Santa Ana (a suburb of San Jose) store, that normally produces the most revenue in liquor and wine is followed by their Playa Herradura and Tamarindo stores (beach area). These are obviously two locations dedicated to satisfying the needs of the nation's tourists. However, astronomical sales results were achieved in just two months of operation at their newest *Pacifica* store located in Guanacaste's Playa Coco in the months of July and August of 2008.

Table 8 demonstrates the purchasing power in liquor and wine of Costa Rica's, Guanacaste-based tourists. It's nothing less than record-breaking and astonishing.

Table 8:
Liquor Sales in Four Select High-End Supermarkets
January to August 2008

Store Location	Liquor and Wine Sales	% of the Individual Store's Sales
Santa Ana*	USD$ 81k	12%
Playa Herradura	USD$72k	9%
Tamarindo	USD$64k	8%
Playa de CoCo**	USD$56k	7%: July & August 2008 only

Sources: COBOLCOR and interviews with supermarket officials September 2008.

** Revenues from the new Playa de Coco store, located in the resort Pacifico (www.pacifico-costarica.com/) after only two months of operation, clearly evidence of the tremendous impact of tourist industry on liquor sales in Costa Rica.

Table 9: Wine Sales in One Major, High-end Supermarket Chain January to August 2008	
Red	USD$70k
White	USD$46k

Table 10: Supermarket Liquor Sales In High End Supermarket January – August 2008			
Type of Liquor	No. of Product Offered	% Growth 1/08-8/08	Internal Ranking
Aperitifs	11		
Brandy	11		
Champagne	12		
Cider	2		
Cognac	10		
Creams/ Digestives	26	32-24	4 - 6
Gin	7		
Grappa	-	38	
Guaro	5	25	
Sherry	5	38	
Mixes	>2		4
Rompope	2	25	
Rum	52	45	2
Tequila	42	40	5
Vodka	42	22	3
Whiskey	11		1

Table: 11 Number of Tretrabricks Sold in Major High-End Supermarkets to August 2008	
Wine	No. of Tetrabricks Sold @ USD $3.80
Red	17,000
White	13,000
Merlot	11,000
Total Tetrabricks sold in Eight Month Period of Time: 41,000	

Table12: Price Range of Five California Wines in One Major Supermarket Chain	US $
Beringer Founders Estate Pinot Noir (California)	$8.00
Beringer Founder´s Estate Merlot (Central Valley)	8.00
Ferrari Carano Merlot (Sonoma Valley, California)	48.00
Chateau Souverain -Merlot (Napa Valley, California)	49.00
Beringer Clear Lake Zinfandel (Clear Lake, California)	38.00

Source: COBOLCOR and interview with supermarket officials September 2008.

While the tretra-brick of Concho y Toro sells briskly at $3.73 in the Fresh Market, they may soon become extinct in the more casual, sister-store ‘AM/PM.’ Management feels that that they can’t charge enough in these convenience stores to make the tretra-brick a viable product.

A visit to approximately 10 Costa Rican supermarkets found these trends in the wine, beer and liquor section

- Liquor is generally prominently displayed in the front half of Costa Rica’s supermarkets in the center or on one of the sides of the store.
- These aisles usually include spirits/liquor, beer and wine.
- Beer and wine displays however, are often found in two, three or four different locations throughout the store and often next to complementary food displays or shelves or when part of a promotion or discount.
- Spirits and liquors and creams are almost always found in only one location in the store.
- Most stores offer their suppliers with free shelf space for the initial display, but any additional displays are available for a fee.

Section VII. Market Penetration, Pricing, and Promotion

Market Penetration and Promotion

The parameters of exclusive representations and the over 200 wine and spirit importers and distributors competing in a geographically small country have forced some importers to join forces strategically in order to penetrate existing markets and create new market opportunities.

Importer Holtermann, for example, in 2002 opened, at that time, a first-of-a-kind wine retail facility called Vinum La Enoteca. The three story retail facility featured 400 of their own wines in addition to a few wines from other distributors and importers such as_Asehot, Italiana Rappa, Alpiste y La Nacional. The cava in Vinum La Enoteca features premium wines costing as much as $200 USD while the first floor features wines between $4.00 and $40.00. On the third floor there is a VIP lounge for reunions and catas. Holtermann subsequently opened a retail outlet next to their corporate offices called Bodega 05. Sales people in all their retail facilities are carefully and continually trained so as to offer the best advise to Holtermann’s customers and clients. Holtermann also created ancillary companies such as a wine club (Vinum La Cofradia) and organized its own wine festival, Vinum Internacional, where catas are featured.

Grupo Pampa, according to the local press, opened two highly successful restaurants called, *Reds & Whites*. Both restaurants are located in popular, new shopping malls, and in both cases the restaurants feature hundreds of their wines. Given the success of the first two restaurants -- new *Reds & Whites* are planned for the tourists regions of Guanacaste and Jacó. Grupo Pampa also has a history of offering classes about wine to hotel and restaurant employees, as well as to consumers.

In October 2007, Holtermann, Grupo Pampa, and E & E Segura joined forces in EXPOVINO, a tasting and promotional expo for distributors, restaurant and bar owners and the public alike. EXPOVINO will be held next in October 2009.

In a small, competitive market top importers join forces and try to create new market opportunities.

Importers interviewed for this report consistently complained that U.S. wine, beer and liquor brokers or manufacturers have an overall lack of interest in the Costa Rican, and Central American markets. One importer remarked that from personal experience he knows that alcoholic beverage brokers and officials from wine houses are often seen in beverage trade shows throughout the Caribbean but shy away from visiting Central America. At least that is the perception.

Another large importer/distributor remarked that Mexico has done it right. Mexican beer manufactures have permanently stationed, in Central America, a marketer/promoter who covers all Central America and who, almost on a weekly basis, can be found in the offices of Costa Rica's larger importer/distributors where they discussing strategy and promotions

The lack of in-country promotional or marketing plans or assistance, especially from U.S. wine exporters forces Costa Rican importers into offering retailers a special "$10.00 per box bonus", for example, for each case of wine they sell. Such efforts chip away at proceeds the importer makes and causes frustration about what is seen as indifference by the U.S. supplier or exporter.

When asked if there is a potential market for new liquors from the U.S., one large importer said with the possible exception of new bourbons there are no new markets. Another importer is actively seeking new and different liquors of all kinds.

List G:
<u>Pricing Issues, Challenges and Opportunities in Costa Rica</u>

- Some high-end resort hotels and restaurants are known to mark-up wine prices as much as 200-300%.

- A few hotels have been forced to explain their pricing (within their menus, for example) saying, in-part, that the high costs of their wine are due to high freight costs and taxes.

- One, highly successful wine restaurant (with over 400 wines) in Escazu, deliberately keeps its wine price mark-up at no more than 32%.

- Consumers view wine's price ranges, beginning at $4.00 USD, to be large.

- Bars throughout the country, to include the tourist locations and neighborhood bars, in late 2008 constantly advertise special beer offers of two (2) beers for $2.28 to $3.23.

One importer describes the destinations of wines at various price ranges:

$10-39	**50% of wines are sold to boutique hotels**
$40-60	40% of wines are sold to larger hotels
$61-$200/300	10% of wines go to this customer base.

- FIFCO has lowered the real price of its beer so as not to exceed the rate of inflation.

- Wine prices have two or three pricing nodes: $2.90 for Ticos, $29.00 for tourists and another figure of around $57.00 for Ticos, mainly, who want to enjoy high-end wines.

List H:
Promotional Observations and Considerations for Alcoholic

- There are three important, special sale opportunities that occur in Costa Rica (as well as throughout Central and Latin America), they are:
  - November and December: Christmas/Holidays where 35% of all annual purchases are made
  - December to April: Tourist season
  - June and August: Father's Day and Mother's Day

- Promotional literature produced by wine houses is always formal, elegant, and in perfect Spanish.

- Bottle collars should be used to promote tastings, promotional campaigns, etc.

- Free smaller sized bottles should accompany large bottles during special promotions.

- Alcoholic beverage promotions, controlled by the government, are still viewed by the public as highly provocative and with a double-meaning.

- Beer promotions are geared to the 18-28 year old. Wine promotions are geared to the 28 to 40 year olds.

- Wine and liquor promotions are aimed at young adults as well as middle-aged adults sometimes with classical type music, but also in some cases featuring a bar, restaurant or dance scene.

- Cable TV and *CNN Español* (late 2008) aires commercials featuring a famous Chilean wine house.

- Wine, liquor and beer promotions are found in gourmet cooking, home furnishings and fashion magazines as well as popular magazines like *revistamuchogusto.com*.
- Airport announcements should be considered. San Jose's principal airport is going through its second expansion in 10 years.

- Concerts galas and art shows should be considered, as they are in the U.S., for the promotion of fine wines.

- There are a few large highway and major artery billboards used to advertise alcoholic beverages. They are simple and elegant.

- Keepsake wedding, Christmas, company, or anniversary gifts containing a personalized bottle of wine with personalized labels should be promoted.

- Promotional pieces, in Spanish, should be monitored. The internet site of one large distributor who carries U.S. wines has dubious information in an attempt to promote U.S. wines:

  > "California has a relatively short history (of wine production). It wasn't until the decade of the seventies that California started to attract wine lovers. California is the sixth world producer of one for its overall production capacity. Although California does not have a system of classification or Denomination of Origin it does have what the government calls an AVA – Approved Viticultural Area or an Area Approved for Wine Growing. This signifies that if one of the approved areas is found on your wine label then 85% of the grapes (in that bottle) have to come from that specific region. ***This is a guarantee of origin, but does address the quality or style of the wine (emphasis denoted by author of this report)."***

Section VIII. Competition: Challenges, Advantages and Opportunities

List I:
Market Challenges

- A few buyers interviewed noted that they know little about U.S. wines outside of a few of the premium wines from California. Conversely they are quite familiar with Chilean and Argentinean wines and have traveled to both countries and their vineyards.
- Most of the country's major and secondary alcohol importers/distributors sell no U.S. wines.
- One major importer successfully promoting a California wine for over four years states that no one from the company has ever visited Costa Rica.
- One importer states that latest field of competition lies between wines from countries who vie for fifth place, the two New World countries of the U.S. and Australia.
- Major importers all have stories of U.S. wines they carried, that failed due to lack of promotional and product support.
- Although Argentina does not have a FTA agreement with Costa Rica, its wines enter the market at lower prices than U.S. wines who are also functioning without an FTA agreement providing tariff/tax-relief.
- Tropical heat must, in general terms, be factored into shipment, storage, and transportation issues.
- Tropicalization (in Spanish tropicalización) of wines should be considered.
- Marketing campaigns should incorporate safe 'drinking and driving' messages as the country is annually plagued with numerous fatal accidents that occur on the country's less than perfect roadways. "Designated driver" campaigns are already widespread.
- Importers complain that 'no formal marketing structure' exists for U.S. alcoholic products, that communication with U.S. suppliers is almost non-existent, and that they seek the initiation and cultivation of long, on-going relationships which should include two to three in-country visits per year.
- Argentina's boutique wines are growing rapidly in the Costa Rican market as are Argentine creams and vodkas.

- The country's relatively poor highway infrastructure requires distributors to have either a large fleet of trucks or bodegas strategically located throughout the country.

List J:
Market Advantages and Opportunities

- U.S. wine growers, brokers, consolidators and exporters should join forces, and consider opening small, boutique retail outlets in the five new malls which attract affluent and upper middle-class Costa Ricans. Other U.S. specialty, gourmet, or even fruit exporters which could be sold in these retail outlets. Such retail enterprises will allow U.S. growers and exporters to constantly promote and educate Costa Ricans as to their latest wines and provide wine-tasting opportunities. Malls that should be considered for such retail wine and spirit enterprises are: Terramall, Multiplaza Escazu, Mall San Pedro, Paseo de las Flores, and Multiplaza del Este.

  A similar strategy should be considered in small malls and retail and resort settings in Guanacaste, Jacó, Limón and Manuel Antonio. In both scenarios retail outlets should incorporate internet-based orders.
- U.S. wine growers/exporters should consider sponsoring a 'tasting rooms' and/or cavas in new, existing/successful restaurants.
- U.S. wine growers/exporters should consider hiring a representative to live in Central America to work with all the U.S. based exporters and Central American importers. It was noted that Mexico has such an individual attends to Mexican beer product promotion and meets frequently (numerous times per month) with Costa Rican importers and distributors.
- A consortium of U.S. wine producers/associations should consider providing American Sommelier Association- type course(s) in Costa Rican colleges or universities.
- A partial grant or scholarship, every two or three years, should be offered to chefs, restaurant owners, or others interested in completing a *'Master of Wine* (MW),' a title that represents the highest level of knowledge and proficiency in the wine trade. There are only 250 Masters of Wine in the world, and only 22 in North America.
- California's 230+ year old wine-producing should be utilized when promoting U.S.-based wine tours and when discussing the U.S.'s wine history. California needs to compete 'historically' with other *'New World wines'* (i.e.Chile, Argentina, Australia) for its place in the history of wine production.
- Mini-wine and mini-liquor bottles should be promoted to/for'Chinos' and 'pulperias' the Mom & Pop neighbor grocery stores. Proctor and Gamble aggressively sells small packaged items to these entities knowing that they are cultivating clients who, in the future, will purchase larger, more standardized sizes. (See *The Wall Street Journal Americas*, No. 626, July 23-29, 2007).
- Hundreds of neighborhood bars and restaurants are packed with customers most week day evenings as well as the weekends. New products should consider these outlets for focus groups and catas, as well as the up and coming neighborhoods and different suburban towns.
- Anticipated growth in Costa Rica's signature golf courses, golf villas and international golf tournaments bode well for the community of golf enthusiasts who enjoy sipping premium wines. U.S. wines should take advantage of this growth.
- U.S. 'boutique' wines may have a place in a country where 'boutique' hotels and 'boutique' restaurants are a norm, and highly popular and successful.
- The U.S. should promote some of the 170 viticultural areas (100 are in California) located in 21 states. Local importers and wine-lovers are unfamiliar with the United State's many wine producing regions.

Table 13: U.S. BONDED WINERIES ALL STATES		
Year	All bonded wineries in California	All bonded wineries in the U.S.
2004	2,059	4,356
2005	2,275	4,929
2006	2,447	5,424
2007	2,687	5,958

Source: WineInstitute.org

- A commercial trade mission featuring only on-line wine stores should be considered for Costa Rica and the entire Central American market. These U.S. based internet wine sellers could work with brokers or consolidators to sell container-load, or half-container loads of wines to Costa Rica and Central America.

- U.S.-based wine clubs should seek exchanges with Costa Rican wine clubs.

Section IX. Ancillary and Complementary Products

More than 15,000 point-of-sale locations exist for the Costa Rican alcoholic beverage industry. These points-of-sale include supermarkets, restaurants, bars, hotels, the internet, resort locations, specialty wine shops, liquor stores, Mom & Pop stores, airports, gift-shops, golf shops, marinas, gas stations, hospital/hotel facilities, and boutique convenience stores – just to name a few. These thousands of locations provide excellent opportunities for numerous ancillary and complementary products in a market where consumers are known to be extremely active, demanding, but always interested in – spending.

Sales of alcoholic beverages especially wine, creams and liquor experience an incredible boom in November and December. The Christmas/Holiday season should be the focus of U.S. exporters and especially those exporters who have novelty-sized items which can readily fit in the ubiquitous Christmas baskets. Given the hundreds of highly successful Tico and Fortune 500 companies in Costa Rica the market gains that could be realized during this season should not be ignored. One importer/distributor fills over 11,000 baskets with wine and other gifts for a major supermarket chain.

Perhaps the highest value ancillary product and of keen interest in Costa Rica's wine consuming community is the wine refrigerator, wine-keeper, or preserver called 'cava' or 'bodega.' Upper class Ticos, understanding the importance of careful preservation of reserve and premium wines are increasingly interested in maximizing their wine investments by preserving them in the correct temperature, light, humidity, natural air circulation, and stillness.

Other possible supplementary product opportunities with a high probability of easy acceptance and market success include:

- All kinds of crystal glass ware for wine, beer, and all liquors and mixed drinks for both residential and commercial use.

- Wine and liquor pourers
- Wine openers
- Wrapping and gift cards for wine and spirits with special attention at Christmas, Mother's and Father's Day.
- Thermostats
- Totes
- Anything original or complementary that could be included in the Christmas and gift baskets such as cookies, cheeses or CDs.

Section X. Market Access

Importation

The Government of Costa Rica (GOCR) is moving towards a simplified, transparent, electronic and centralized customs database system intended to improve the decisions of customs officials, improve tax revenues, and improve the trustworthiness of the information used by customs. Costa Rican legislation dealing with food imports has not changed significantly in over 15 years, however, there are 135 technical regulations, 68 executive decrees and 12 general laws that affect food products. Specific regulations can be found in the Ministry of the Economy's website: http://www.reglatec.go.cr.

Importation procedures include:

- All food products must be registered prior to importation.
- Labeling, according to regulations, may take place once the product enters the country but the product must be appropriately labeled before it reaches the point-of-sale. Violations of documentation laws lead to heavy fines.
- Costa Rican customs procedures are complex and bureaucratic, but increasingly are done electronically at "one stop" import and export windows.
- The importer must contact a Customs Agent (Article 33 of the GOCR General Customs Law) who is the only person authorized by Customs to provide customs services.
- The importer must provide the customs agent with a:
    - Commercial invoice,
    - Bill of lading or airway bill depending on the transportation means to be used, and a
    - Copy of the importer's identification document (passport, ID or legal identification in the case of a business entity).
- A Customs Agent will classify the imported product and determine any required import permits (phytosanitary etc.).
- A Customs Agent may request the permits on behalf of the importer; depending on the product, and prior to this, the product must first be registered at the Ministry of Health or Ministry of Agriculture.
- Once permits are processed, the Customs Agent will complete the "Declaración Aduanera de Importación" (Customs Import Form) and submit it to the Customs office where the product is expected to enter the country.
- Customs uses a random sampling process to physically inspect the product.
- If inspected, the Customs Agent proceeds to pay the duties.
- Customs will provide the importer a copy of the Customs Import Form, with the statement "Levante de Mercancia" (Cleared Product).
- The importer/representative can pick up the product.
- Mail shipments require only postal documentation.

Procedures for the importation of samples, for tastings, include:

Importer must fill out a form indicating the name, brand, quantity and origin of the products to be imported.

- State if products are for exhibition or tasting.
- Detail the specific tasting activity.
- Products must be labeled with a sticker indicating: "Prohibida su venta" (Not for Sale).
- Products imported for tasting and exhibition cannot be sold.
- Products imported under this procedure must comply with any sanitary or phytosanitary requirements that apply to the specific product.
- The Ministry of Health will resolve import authorizations within 10 working days.

Customs tax

The tax structure on alcoholic beverages has improved since 2000 and is determined by the amount of alcohol the beverage contains. Beer containing about 5% alcohol pays less tax than whisky that usually contains 40% alcohol.

For an item like sparkling wine (tariff code: 2204.10.00), the following calculation illustrates the five taxes imposed on a CIF delivery for most alcoholic beverages:

- **Product CIF Value** **$100.00**

  First Tax: Ad-Valorem Tax (I.V.)
  - Add 13% of CIF value (0.13 x $100) = 13.00 13.00
  - Total CIF value, plus ad-valorem tax = 113.00
  - Levied against the CIF value this tax is known as the D.A.I., or "Impuesto Arancelario"

  Second Tax: IFAM*Tax
  - Add 10% of CIF value 10.00
  - Total CIF value, plus ad-valorem tax, plus IFAM tax 124.00

  Known as the IFAM tax (Instituto de Fomento de Asesoria Municipal-Institute Of Municipal Assistance)

  Third Tax: Consumption Tax
  - 15% of above total (0.15 x $124) = 18.6018.60
  - Known as "Impuesto Selectivo de Consumo" (S.C.)

  Fourth Tax: Act 6946 Tax
  - 1% of CIF value (0.01x $100) = 1.00 1.00
  - Ley/Law No. 6946 the economic stabilization tax that levies an additional 1% on all goods.

  Fifth Tax: Sales Tax
  - 13% of above total (0.13x $137.40) = 17.86 17.86
  - Levied against the cumulative amount

  Formula: Sales Tax (I.V.)= CIF + D.A.I. +

consumption tax (S.C.) + Law 6946 x
13% sales tax (I.V.) = **Total Duty/Tax $ 60.46**

- **Total Product Value Plus taxes $160.46**

Labeling Procedures

Defined by the Central American Customs Union and the General Regulations on Food Labeling (Reglamento General para el Etiquetado de Alimentos) and includes:

- The product label must be in Spanish. A label not originally in Spanish can use a supplementary label instead of a new one but must contain, in Spanish, all the information required.
- A new or supplementary label must fully and accurately reflect the information given in the original label.
- Quality specifications, when used, must be easily understandable and not misleading.
- Optional labels can show any information or graphic illustration as well as written, printed, or graphic matters, provided they do not contradict mandatory requirements in these regulations.
- Stick-on labels are permitted.

Product labels, in Spanish, must contain:

-Product name.
-Net content and drained weight in international system units.
-Artificial colors and flavors (if any).
-Ingredients listed in decreasing order, by weight.
-Importer's name and address.
-Lot number and expiration date.
-Country of origin.
-Preservation and use instructions.

For additional information on the importation of beverage products consult:

- FAS/GAIN Report Number CS8014 of October 10, 2008, "Costa Rica Food and Agricultural Import Regulations and Standards, Annual Report, 2008" prepared by the U.S. Dept. of Agriculture's San Jose, Costa Rica office.
- http://www.protecnet.go.cr/insumosagricolas/registro/regcomoimportar.htm.

Section XI. Contacts and Further Information

For questions in relation to this report or assistance in exporting to Costa Rica, please contact the U.S. Embassy in San José at the following address:

I. U.S. Embassy San José, Costa Rica.

Department of Agriculture
Foreign Agricultural Service (FAS) Unit 2507
APO AA 34020
Phone: (506)-2519-2333 Fax (506) 2519-2475
E-mail: agsanjose@usda.gov

Website: www.fas.usda.gov
Mr. Kevin N. Smith, Agricultural Counselor
Ms. Justina Torry, Assitant Attaché
Mr. Víctor González, Agricultural Specialist
Ms. Illeana Ramírez, Agricultural Marketing Specialist
Ms. Cynthia Smith-Palliser, Agricultural Marketing Assistant
Ms. Rosa Murillo, Administrative Assistant

II. Comprehensive Economic Information

Central Bank of Costa Rica	www.bccr.fi.cr
Ministry of Foreign Trade	www.comex.go.cr
Costa Rican Foreign Trade Corporation	www.procomer.com
Bureau of Labor Statistics	http://stats.bls.gov

III. Statistics and Population

National Institute of Statistics and Census-INEC	www.inec.go.cr

IV. Newspapers

La Nación:	www.nacion.co.cr
La Prensa Libre:	www.prensalibre.co.cr
El Financiero:	www.financiero.co.cr
The Tico Times:	www.ticotimes.net
La República:	www.larepublica.net

Annex 1

Table 14:
U.S. Wines and Their Importers/Distributors
Costa Rica 2007 – 2008
Partial List

U.S. Wine Maker	Importer and/or Distributor
Abundance Vineyards	E&E Segura Internacional
Bargetto	E&E Segura Internacional
Barsetti Vineyards	E&E Segura Internacional
Beringer	Holtermann & Cia
Buena Vista Carneros Reserva	E&E Segura
Caymus	
Chateau St. Jean	
Coppola	E&E Segura Internacional
Cuvasion Napa Valley	E&E Segura Internacional
Duck Horn	E&E Segura Internacional
E&J Gallo	Grupo Constenla
E2 Family Winery	E&E Segura Internacional
Estancia Estates	Grupo Pama
Far Niente The Napa Valley	E&E Segura International
Franciscan Oakville Estate	Pampa
Gayaldo Farms	E&E Segura Internacional
Gran Reserva Carneros	E&E Segura Internacional
Grgich Hills	E&E Segura
Groth Vineyards	E&E Segura Internacional
Haywood	E&E Segura
Icon Estates	Grupo Pampa
Irish Vineyards -	E&E Segura Internacional
J. Lohr Vineyards	E&E Segura Internacional
Jordan	E&E Segura Internacional

Kapiniaris Vineyards	E&E Segura Internacional
Kendall Jackson	Holtermann & Cia.
Kenwood	Distribuidora Islena de Alimentos
Macchia Wines	E&E Segura Internacional
Manischewitz	Grupo Pampa
Mokelumne Oaks Vinters	E&E Segura Internacional
Nevada City Winery	E&E Segura Internacional
Opus One	Grupo Pampa
Pasos Vineyards -	E&E Segura Internacional
Paul Masson	Grupo Pampa
Raymond	E&E Segura Internacional
Robert Mondavi Winery	Grupo Pampa
Robert Stemmler Winery	E&E Segura Internacional
Rustridge	E&E Segura Internacional
Simi	Pampa
Stags Leap Winery	Pampa
Stimson Lane Vineyards	E&E Segura Internacional
Sutter Home	Grupo Pampa
Vendange	Grupo Pampa
Watts Winery	E&E Segura Internacional
Weibel Vineyards	E&E Segura Internacional
Wente Vineyards	E&E Segura Internacional
Woodbridge	Grupo Pampa

Sources: COBOLCOR, the internet, and Directory of the first EXPOVINO, San Jose, Costa Rica, October, 2007.

Annex 2

Table 15:
Wine Importers, Distributors & Participants in EXPOVINO, October 2007 San Jose, Costa Rica

20 – Avenue	Alpiste
Asehot Internacional	Auto Mercado
Bodegas Padi, S.A.	Bodegas Vinicolas de Espana
Canachil	Centenario Internacional
Corbe Gourmet, S.A.	Distribuidora Isleana de Alimentos
Distribuidora Jaizkibel	Distribuidora Lucema
Distribuidora Sabores Argentinos	E&E Segura Internacional
Gourmet Imports	Grupo Constenla
Grupo Pampa	Holtermann & Cia.
La Cava Mundial	La Nacional
Productos Maky	Sol Amerika, S.A.
Vinum Aura	

Sources: COBOLCOR, the internet, and directory of the first EXPOVINO, San José, Costa Rica, October, 2007.

Annex 3

List K:

Wine, Beer, Liquor and Related Trade Shows in Costa Rica

Meeting Costa Rican importers and distributors at international alcoholic beverage shows should always be considered. However, given the sophistication of the Costa Rican market and the competition that exists among more than 200 importers and distributors -- trade shows within Costa Rica should be seriously considered. This recommendation was strongly made by numerous Costa Rican importers and distributors in the course of compiling information for this report.

Date: June 23-25,2009

Sponsor: Apetitoenlinea.com, Expo Hoteles y Restaurantes (exphore.com), and EKA Consultores (ekaconsultores.net), San Jose, Costa Rica

General Information: Suppliers to hotels, restaurants, bars, hospitals and supermarkets will have the opportunity to meet some 3,000 general managers and directors in the industry.

Contact: Milagro Obando, Ejecutiva de Eventos.Tel: (506) 2231-6722 Ext.147
E-mail: milagro.obando@eka.net http://www.exphore.com/

Date: October 27-29, 2009, 1 p.m. to 9 p.m.

Sponsors: ExpoVinoCostaRica: apetitoenlinea.com, The Magazine for Hotels and Restaurants, expovinocr.com, EKA Consultores, Holtermann, and Grupo Pampa.

Location: Hotel Real Intercontinental

General Information: This event, initiated in 2007 occurs every two years, is designed to attract regional distributors and world class wine producers. In 2007, 100 hundred exhibitors and some 3,000 attendees, mostly consumers/wine aficionados participated in this first-time event. The event is open to distributors, hotels, restaurants, bars, and the general public. In 2007, a $25 entrance fee included entrance to the trade show, one wine glass, one port wine glass, four tickets to a wine tasting, and a copy of the Expovino Directory (2007).

Contact: Milagro Obando, Ejecutiva de Eventos, Tel.: (506) 2231-6722
milagro.obando@eka.net

Annex 4

Sampling of Restaurants and Bars

The increase in the sale of wine, beer and spirits significantly depends on the success and growth of the bar, restaurant, hotel, tourism and supermarket sectors and industries.

There are over 10,000 restaurants and bars throughout Costa Rica. Many pride themselves on having elaborate beer, wine or spirit selections. The list below provides a small, random, sample of some of Costa Rica’s popular beer, wine and spirit bars and restaurants. This list does not pretend to be exhaustive or inclusive. This list could be consulted for examination of beer and wine lists offered.

We encourage you to contact the numerous restaurant, tourism and related associations and industry groups in Costa Rica for further information and for directories of restaurant, bars and other eating and drinking establishments.

Annex 5

Index of Tables, Charts, and Lists

Tables and Charts

Chart

Lists

List E	Actual Profile, Trends and Characteristics of Mas Tkila a Popular, Successful, Trendy Bar,Escazu, Costa Rica 2007-2007
List F	Profile, Trends and Characteristics of Wine, Beer and Spirit Sales at Fresh Market and AM/PM
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